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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

THE CURRENT SITUATION IN AUSTRIA

APPROVED FOR RELEASE
DATE AUG 1999

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26

4 April 1968
No. 0654/68

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
4 April 1968

INTELLIGENCE MEMORANDUM

The Current Situation in Austria

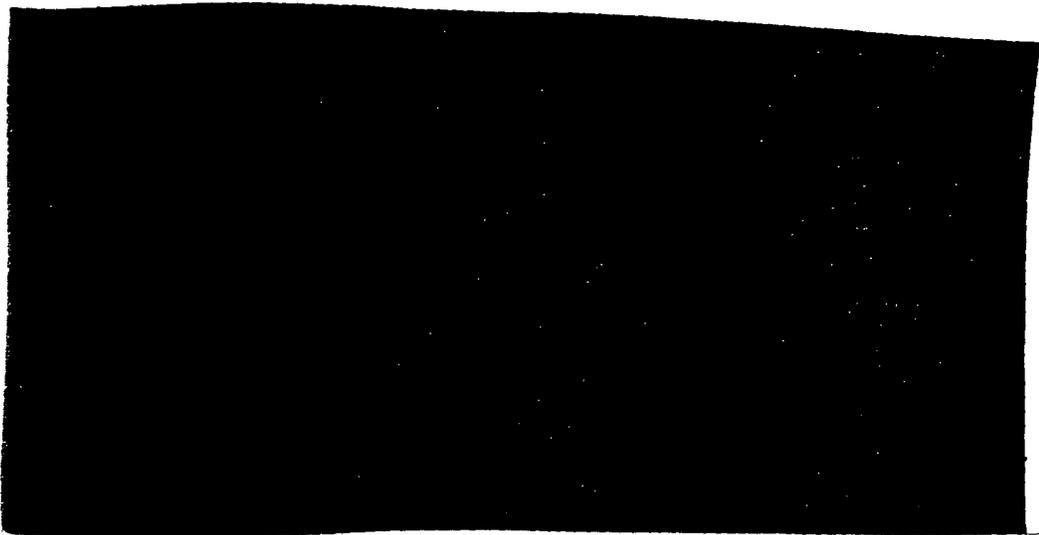
Summary

Austrian Chancellor Klaus, who is coming to Washington on 10 April, brings no pressing bilateral problems with him. The main purpose of his visit is to offset domestic criticism that he has been devoting too much attention to the Eastern European countries in his travels. The chancellor hopes that the publicity surrounding his visit to the US will bolster his image and that of his governing People's Party, which has recently suffered a series of defeats in local and provincial elections at the hands of the opposition Socialists.

The problems facing Austria in foreign affairs are few and relatively minor, despite their occasional impact on domestic politics. Austrians have been less perturbed by the war in Vietnam than other Europeans, and leading officials have been sympathetic to American policy.

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Austrian Politics

2. Chancellor Klaus is caught in the middle of what for post - World War II Austria is a political experiment--a single-party government. From the end of the war until the national elections of March 1966, Austrian governments were coalitions of the two largest parties, the front-running People's Party and the Socialists, whose vote totals were usually very close. In 1966, however, the Socialists lost ground to the People's Party and, when slighted in the division of cabinet portfolios, decided to go into opposition.

3. The People's Party has found the burden of governing alone to be quite heavy. The Socialists, not having to share this burden, have been able to snipe at the government's inability to make significant progress in solving the country's major domestic problems. In a series of provincial and local elections since last fall, the Socialists have shown surprising strength, even in normally People's Party areas.

4. As a result, the government in January underwent a cabinet shake-up in which a few ministers who were particularly unpopular were replaced but which was largely window dressing. The most significant shift was to include in the government for the first time Hermann Withalm, who has been rumored

to be in line to replace Klaus as chancellor should the party continue to meet election defeats. Witzhalm, 55, is a controversial figure even within his own party. An excellent "staff" man experienced in running the party, he is thought by some to be too opinionated and outspoken to be a suitable chancellor.

5. The Austrian Socialist Party, unaccustomed to an opposition role, spent the first 16 months after the 1966 election casting about for issues and an image. It came into its own with last fall's provincial and local elections when the people, reacting to inept government handling of the budget debate in parliament, began giving the Socialists unexpected majorities. Following the Socialist's victory in last month's balloting in Burgenland Province and the city of Graz, their party leaders have charged that the People's Party no longer enjoys the confidence of the majority and have demanded that national elections be held in advance of the 1970 due date. Klaus has demurred, however, stating that his government will see out the four-year term to which it has been elected.

6. The Socialists are led by Bruno Kreisky, chairman since January 1967. At that time, he replaced his rival, Bruno Pittermann, whose leftist image was thought to be responsible for the decline in the party's fortunes in 1966. Kreisky represents the modernizing and moderate wing of the party; Pittermann, the more traditional, Marxist element. Kreisky is having great success in welding divergent elements together within the party, and seems clearly on the ascendancy. Yet there is some doubt whether he would form a government without the People's Party, even if his Socialists won the next national elections. He commented recently that he doubted Austria could be governed effectively with one of the major parties in opposition. It is necessary, he said, to engage the responsibility of both parties by including the two of them in the government.

Domestic Issues

7. The immediate fate of Klaus and his People's Party government rests largely upon the evolution of domestic economic developments. At the moment, the country is still suffering the effects of the slowdown that began in the second half of 1966 and continued throughout 1967. The Gross National Product in constant prices rose no more than two percent during 1967, a substantial drop from the four percent or more average growth rates of the earlier 1960s, and industrial production did not exceed the level of previous years. Austria is heavily dependent on foreign markets, which purchase about one third of its total industrial output, and was especially hard hit by the recent recession in West Germany, its principal trading partner. At the same time, domestic demand for goods and services has also stagnated. The slowdown in economic expansion has revealed structural weaknesses in the economy, especially the need for rationalization, modernization, and reorientation of industrial production to increase productivity and enhance the competitiveness of Austrian products in world markets.

8. To stimulate the flagging economy, the government introduced an expansionary budget for 1968 and the National Bank eased its monetary policy. The impact of these measures, together with the anticipated acceleration of economic growth in West Germany and in other countries who are major trading partners, is expected to spur an increase in national output of from three to four percent during 1968. To sustain growth at this rate, however, the structural problems of the economy must be resolved. The attendant social and economic dislocations, although necessary to achieve the required modernization of the country's productive plant, are likely to produce continued political difficulties for the party in power.

Foreign Issues

9. Part of Austria's economic difficulties stem from its exclusion from the Common Market. The major obstacle has been the USSR, which holds that membership would violate Austrian neutrality and be tantamount to economic anschluss with Germany. Even some

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lesser form of association with the Market seems ruled out for the immediate future because of French and Italian opposition.

10. All Austrian efforts in recent years in this area have resulted only in frustration. The Klaus government sought to put the best face possible on this stalemate by dropping the cabinet minister responsible for Common Market negotiations in the January cabinet shuffle. The government's current mood is that it cannot afford to wait for some form of association, but must seek a preferential trading agreement with the Market in order to make its trade items more competitive.

11. Austria continues to be embroiled with Italy over the alpine area known as South Tyrol (Alto Adige), which was given to Italy in 1919, although its population is heavily Austrian. Enmity was sparked by Rome's efforts over the years to Italianize the area. After World War II, the Italian Government agreed to a large measure of cultural autonomy for the area, but Rome and Vienna remain at odds over whether this agreement has been properly implemented and the extent to which it should be "guaranteed" by other countries. Italy sees no need for a third-country involvement in the issue. In addition, relations are strained by a South Tyrol terrorist movement which Rome believes Vienna is not adequately combating. The latter has begun taking sterner measures against terrorists, however, and there is some expectation in Vienna that progress will be made on the dispute over "guaranteeing" the agreement after Italian elections this spring.

12. Austrians on the whole have been less perturbed by the Vietnam war than other Europeans; anti-American demonstrations in the country have been few and sparsely attended. The government has not been forced to take a stand on the war, and leading officials have continued to be sympathetic to the American cause. Within recent weeks, Foreign Minister Waldheim has worked closely with Ambassador MacArthur in developing an Austrian

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position regarding a Dutch-sponsored peace initiative. Because this Dutch plan was not acceptable to Washington, Austria declined to participate in it.

13. Austria's status as a neutral guaranteed by the US, USSR, Great Britain, and France also poses problems. The neutrality treaty's strictures against certain forms of armaments, for example, have created a morale problem in the country's armed forces. Among the population at large, there is a feeling of "small-country impotence." On the other hand, the traditionalist-minded Austrians, recalling their imperial past in Danubian Europe, also like to think of themselves as a natural "bridge" between the Western democracies and Communist Eastern Europe. The Austrians were among the first of the Western Europeans in the postwar era to seek friendlier ties with the East, and through the medium of state visits as well as diplomatic, cultural, and trade accords, they have to a large extent normalized relations with their Eastern neighbors.